

April 8, 2008

To: Board of Governors of the Federal Reserve

Re: Docket No. R-1305

From: Robert L. Key, President, RealPros Mortgage, LLC, Denver, CO 80210

Ladies and Gentlemen:

I am aware of the pending legislation for mortgage industry, and particularly the efforts to further regulate Mortgage Brokers and earned yield spread premium compensation while leaving direct mortgage lenders and mortgage banker industry participants without additional regulation or any disclosure of this compensation at all.

All originators and sellers of residential mortgage loans should be subject to the same disclosure requirements, since we all make money the same way. In fact, direct lenders and mortgage bankers who are currently exempt from YSP disclosure requirements make more money this way than brokers do. This is simply a diversion tactic for slamming mortgage brokers for the growing problems in the credit industry, while they themselves are largely to blame. The industry direct lenders and mortgage bankers are, and have been for years, trying to make it more difficult for brokers to operate. They want mortgage brokers to disclose the yield spread premium because they think it will make us less competitive in the consumer's eye, all while they make more than we do. This has the effect of limiting competition and strategically gaining more market share for themselves through legislation instead of market forces. They have a strong industry lobby that is far more organized and well funded than our own National Association of Mortgage Brokers.

I have been a mortgage broker since 1991, first working for a brokerage company, and then for myself since 1997. I have originated and sold hundreds of loans to lenders over the years, principally conventional FNMA or FHLMC quality loans that have been expertly processed, submitted, underwritten and closed. All within the system that is currently in place, albeit with the increasing requirements of disclosure over the years: items such as the Right to Receive a Copy of the Appraisal, Affiliated Business Arrangements and Interested Party Disclosures, Credit Scores Disclosures, Servicing Disclosures, Mortgage Loan Origination Agreements, IRS forms 4506-T, and Yield Spread Premium Disclosure. These forms have been introduced over the years and have principally migrated through the mortgage broker community first, and then may or may not have been adopted by bankers and direct lenders.

We now have State of Colorado specific forms that detail our compensation, and which must be signed by borrowers under time regulations imposed by the state (similar to the Reg. Z rule), and which we must retain for inspection by regulators for at least four years. Certain lenders, such as Wells Fargo, now require their own forms be signed in addition to the State required forms. Their employees who are originating loans are currently exempt from this requirement. Why should a Wells Fargo employed loan officer be exempt from any YSP compensation disclosure while we have to produce two sets of the same document? They work for a company that is selling its loans as well, and they make more money than we do in the process. It not fair to require YSP disclosure for brokers, and not for bankers or direct lenders.

Yield Spread Premiums do more than just compensate brokers. Often times we can save the borrower money by simply being paid through the YSP due on sale of the loan, rather than charging points or origination fees. Or we can perform no closing cost transactions, or reduce closing costs enough that real benefits are realized by the consumer: such as avoiding mortgage insurance, keeping financed loan costs to a minimum, or enabling a home purchase for someone who doesn't have enough money for closing costs. Bankers do the same but don't disclose how it is accomplished.

The requirement for mortgage brokers to disclose the yield spread premium before the application is taken is simply unworkable. It is impossible to tell what the compensation will be at this point in the application process. Yield spread premiums are based on credit scores, loan amounts, loan to value ratios, loan size, the ability of the applicant to qualify, and many other factors that are unknown at the point of initial application. To require this of mortgage brokers would create a lot of errors in the process, and probably more consumer confusion. Consumers want to know they are getting the rate and terms they have agreed to, and care less about compensation paid to the broker on the sale of the loan much less actually understand the process. Why is it that mortgage brokers must disclose their cost of goods, while bankers and direct lenders don't (their cost is even lower)?? Why should we have to disclose the cost of our money while other industry participants don't?? Further and in the name of capitalism, why do hardware stores need to disclose to consumers that they are making 300% on an item they managed to secure at a great price from a supplier?? Why should any business have to disclose their cost basis to a consumer in a sales transaction?

While YSP disclosure is something we have disclosed for years now through the application and closing process, (because we always offer no cost or no point loans which require the explanation of sale proceeds being used for compensation or closing costs), why can't we level the playing field to require the same of mortgage bankers and direct lenders?? This only seems fair and would correct a significant inequity that mortgage brokers have been burdened with for years now.

While many of these disclosures are important, and I support consumer protection goals in legislation, I don't support more paperwork and compensation disclosure requirements solely for mortgage brokers. Our loan applications currently have between 21 and 25 pages of application and disclosure forms. If the consumer gets what they agreed to, why should we have to disclose our total compensation? It's just another step that creates confusion for them, as well as a ruse used by the mortgage bankers and direct lenders to decrease competition for services rendered. If mortgage brokers have to disclose compensation, then level the playing field and require the same of all people in the business. And don't require it at the front of the transaction where we can't make an exact determination of compensation.

Thank you taking the time to consider my opinion on this important subject. I am available for questions and comments.

Sincerely,

Robert L. Key
President
RealPros Mortgage, LLC
1777 South Harrison Street
Suite P-306
Denver, CO 80210
303-756-7600